

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



**FISCAL NOTE**

**HB 2171 - SB 2531**

February 25, 2018

**SUMMARY OF BILL:** Increases the price threshold of a computer, from \$1,500 to \$2,000, which is exempt from state and local sales and use tax during the sales tax holiday. Exempts the following items from state and local sales and use tax during the sales tax holiday:

- Printers with a sales price of \$200 or less per item;
- Monitors with a sales price of \$200 or less per item, and
- School calculators with a sales price of \$150 or less.

**ESTIMATED FISCAL IMPACT:**

**Decrease State Revenue – Net Impact – \$119,900**

**Decrease Local Revenue – Net Impact – \$48,900**

Assumptions:

*Printers*

- This legislation exempts from state and local sales and use tax, any purchase of a printer with a sales price of \$200 or less.
- As a result of such exemption, there will be a reduction in state and local sales tax revenue.
- Based on U.S. Census Bureau data, there are approximately 2,556,332 households in Tennessee.
- Based on U.S. Census Bureau data, approximately 1,959,699 of such households in Tennessee have either a desktop, laptop, or tablet. It is assumed that all such households own a printer.
- It is assumed that 10 percent of such households owning a printer will purchase a printer over the course of a year, or 195,970 printers (1,959,699 x 10%).
- Approximately 537 printers are purchased daily in Tennessee (195,970 / 365 days).
- Pursuant to Tenn. Code Ann. § 67-6-393(a), the sales tax holiday lasts between 12:01 a.m. on the last Friday of July and 11:59 p.m. the following Sunday, or approximately 3 days.
- This legislation will result in 200 percent increase in printers demanded over the sales tax holiday.
- There will be an increase of 3,222 printers sold on the sales tax holiday (537 printers x 3 days x 2).

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- A total of 4,833 printers, priced at \$200 or below, sold during the sales tax holiday [3,222 + (537 printers x 3 days)].
- An average printer sales price of \$150.
- Sales attributable to of printers during the sales tax holiday of \$724,950 (4,833 printers x \$150).
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- A recurring decrease in state revenue of \$48,911 [ $(\$724,950 \times 7\%) - (\$724,950 \times 7\% \times 3.617\%)$ ].
- A recurring decrease in local revenue of \$19,959 [ $(\$724,950 \times 2.5\%) + (\$724,950 \times 7\% \times 3.617\%)$ ].
- Fifty percent of tax savings, or \$34,435 [ $(\$48,911 + \$19,959) \times 50\%$ ], will be spent in the economy on other sales-taxable goods and services.
- The recurring increase in state sales tax collections is estimated to be \$2,323 [ $(\$34,435 \times 7\%) - (\$34,435 \times 7\% \times 3.617\%)$ ].
- The recurring increase in local sales tax collections is estimated to be \$948 [ $(\$34,435 \times 2.5\%) + (\$34,435 \times 7\% \times 3.617\%)$ ].
- The net recurring decrease in state revenue as a result of this legislation is estimated to be \$46,588 ( $\$48,911 - \$2,323$ ).
- The net recurring decrease in local revenue as a result of this legislation is estimated to be \$19,011 ( $\$19,959 - \$948$ ).

#### *Monitors*

- This legislation exempts from state and local sales and use tax, any purchase of a monitor with a sales price of \$200 or less.
- As a result of such exemption, there will be a reduction in state and local sales tax revenue.
- Based on U.S. Census Bureau data, there are approximately 2,556,332 households in Tennessee.
- It is assumed that only 5 percent of such household purchase a monitor by themselves, or approximately 127,817 households ( $2,556,332 \times 5\%$ )
- It is assumed that 10 percent of such households purchasing a standalone monitor will purchase a new monitor over the course of a year, or 12,782 printers ( $127,817 \times 10\%$ ).
- Approximately 35 monitors are purchased daily in Tennessee ( $12,782 / 365$  days).
- Pursuant to Tenn. Code Ann. § 67-6-393(a), the sales tax holiday lasts between 12:01 a.m. on the last Friday of July and 11:59 p.m. the following Sunday, or approximately 3 days.
- This legislation will result in 200 percent increase in monitors demanded over the sales tax holiday.
- There will be an increase of 210 monitors sold on the sales tax holiday (35 monitors x 3 days x 2).
- A total of 315 monitors, priced at \$200 or below, sold during the sales tax holiday [210 + (35 printers x 3 days)].
- An average monitor sales price of \$150.

- Sales attributable to of monitors during the sales tax holiday of \$47,250 (315 monitors x \$150).
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- A recurring decrease in state revenue of \$3,188  $[(\$47,250 \times 7\%) - (\$47,250 \times 7\% \times 3.617\%)]$ .
- A recurring decrease in local revenue of \$1,301  $[(\$47,250 \times 2.5\%) + (\$47,250 \times 7\% \times 3.617\%)]$ .
- Fifty percent of tax savings, or \$2,245  $[(\$3,188 + \$1,301) \times 50\%]$ , will be spent in the economy on other sales-taxable goods and services.
- The recurring increase in state sales tax collections is estimated to be \$151  $[(\$2,245 \times 7\%) - (\$2,245 \times 7\% \times 3.617\%)]$ .
- The recurring increase in local sales tax collections is estimated to be \$62  $[(\$2,245 \times 2.5\%) + (\$2,245 \times 7\% \times 3.617\%)]$ .
- The net recurring decrease in state revenue as a result of this legislation is estimated to be \$3,037  $(\$3,188 - \$151)$ .
- The net recurring decrease in local revenue as a result of this legislation is estimated to be \$1,239  $(\$1,301 - \$62)$ .

#### *School Calculators*

- Pursuant to Tenn. Code Ann. § 67-6-393(a)(2), school supplies with a sales price of \$100 or less per item are exempt from state and local sales and use tax during the sales tax holiday.
- Pursuant to Tenn. Code Ann. 67-6-102(83), calculators are considered school supplies.
- This legislation exempts from state and local sales and use tax, any purchase of a school calculator with a sales price greater than \$100, but less than \$150.01.
- As a result of such exemption, there will be a reduction in state and local sales tax revenue.
- Based on U.S. Census Bureau data, there are approximately 2,556,332 households in Tennessee.
- It is assumed that 5 percent of each household which owns a calculator will purchase a new calculator over the course of a year, or 127,817 calculators  $(2,556,332 \times 5\%)$ .
- Approximately 350 calculators are purchased daily in Tennessee  $(127,817 / 365 \text{ days})$ .
- It is assumed that 25 percent of calculators purchased daily in Tennessee are priced greater than \$100 and less than \$150.01, or 88 calculators  $(350 \times 25\%)$ .
- Pursuant to Tenn. Code Ann. § 67-6-393(a), the sales tax holiday lasts between 12:01 a.m. on the last Friday of July and 11:59 p.m. the following Sunday, or approximately 3 days.
- This legislation will result in 200 percent increase in calculators demanded over the sales tax holiday.
- There will be an increase of 528 calculators sold on the sales tax holiday  $(88 \text{ calculators} \times 3 \text{ days} \times 2)$ .
- A total number of 792 calculators, priced above \$100, but not greater than \$150, sold during the sales tax holiday  $[528 + (88 \text{ calculators} \times 3 \text{ days})]$ .

- An average calculator sales price of \$125.
- Sales attributable to of calculators during the sales tax holiday of \$99,000 (792 printers x \$125).
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- A recurring decrease in state revenue of \$6,679  $[(\$99,000 \times 7\%) - (\$99,000 \times 7\% \times 3.617\%)]$ .
- A recurring decrease in local revenue of \$2,726  $[(\$99,000 \times 2.5\%) + (\$99,000 \times 7\% \times 3.617\%)]$ .
- Fifty percent of tax savings, or \$4,703  $[(\$6,679 + \$2,726) \times 50\%]$ , will be spent in the economy on other sales-taxable goods and services.
- The recurring increase in state sales tax collections is estimated to be \$317  $[(\$4,703 \times 7\%) - (\$4,703 \times 7\% \times 3.617\%)]$ .
- The recurring increase in local sales tax collections is estimated to be \$130  $[(\$4,703 \times 2.5\%) + (\$4,703 \times 7\% \times 3.617\%)]$ .
- The net recurring decrease in state revenue as a result of this legislation is estimated to be \$6,362  $(\$6,679 - \$317)$ .
- The net recurring decrease in local revenue as a result of this legislation is estimated to be \$2,596  $(\$2,726 - \$130)$ .

#### *Computers*

- Pursuant to Tenn. Code Ann. § 67-6-393(a)(3), computers with a sales price of \$1,500 or less per item are exempt from state and local sales and use tax during the sales tax holiday.
- This legislation exempts from state and local sales and use tax, any purchase of a computer with a sales price greater than \$1,500, but less than \$2,000.01.
- As a result of such exemption, there will be a reduction in state and local sales tax revenue.
- Based on U.S. Census Bureau data, there are approximately 2,556,332 households in Tennessee.
- It is assumed that every household owns a calculator and that 5 percent of such
- Based on U.S. Census Bureau data, approximately 1,959,699 of such households in Tennessee have either a desktop, laptop, or tablet.
- It is assumed that 5 percent of households which own a computer will purchase a new computer over the course of a year, or 97,985 computers  $(1,959,699 \times 5\%)$ .
- Approximately 268 computers are purchased daily in Tennessee  $(97,985 / 365 \text{ days})$ .
- It is assumed that 25 percent of computers purchased daily in Tennessee are priced greater than \$1,500 and less than \$2,000.01, or 67 computers  $(268 \times 25\%)$ .
- Pursuant to Tenn. Code Ann. § 67-6-393(a), the sales tax holiday lasts between 12:01 a.m. on the last Friday of July and 11:59 p.m. the following Sunday, or approximately 3 days.
- This legislation will result in 200 percent increase in computers demanded over the sales tax holiday.

- There will be an increase of 402 computers sold on the sales tax holiday (67 computers x 3 days x 2).
- A total number of 603 computers, priced above \$1,500, but below \$2,000, sold during the sales tax holiday [402 + (67 calculators x 3 days)].
- An average computer sales price of \$1,650.
- Sales attributable to of calculators during the sales tax holiday of \$994,950 (603 printers x \$1,650).
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- A recurring decrease in state revenue of \$67,127 [(\$994,950 x 7%) – (\$994,950 x 7% x 3.617%)].
- A recurring decrease in local revenue of \$27,393 [(\$994,950 x 2.5%) + (\$994,950 x 7% x 3.617%)].
- Fifty percent of tax savings, or \$47,260 [(\$67,127 + \$27,393) x 50%], will be spent in the economy on other sales-taxable goods and services.
- The recurring increase in state sales tax collections is estimated to be \$3,189 [(\$47,260 x 7%) – (\$47,260 x 7% x 3.617%)].
- The recurring increase in local sales tax collections is estimated to be \$1,301 [(\$47,260 x 2.5%) + (\$47,260 x 7% x 3.617%)].
- The net recurring decrease in state revenue as a result of this legislation is estimated to be \$63,938 (\$67,127 - \$3,189).
- The net recurring decrease in local revenue as a result of this legislation is estimated to be \$26,092 (\$27,393 - \$1,301).

*Total Impact to State and Local Government*

- The total net recurring decrease in state revenue as a result of this legislation is estimated to be \$119,925 (\$46,588 + \$3,037 + \$6,362 + \$63,938).
- The total net recurring decrease in local revenue as a result of this legislation is estimated to be \$48,938 (\$19,011 + \$1,239 + \$2,596 + \$26,092).

**CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.

*Krista M. Lee*

Krista M. Lee, Executive Director

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